

December 29, 2000

D.T.E. 00-7

Petition of Nantucket Electric Company for approval by the Department of Telecommunications and Energy of a Cable Surcharge to become effective on January 1, 2001.

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FOR: NANTUCKET ELECTRIC COMPANY

Petitioner

- INTRODUCTION

On October 10, 1995, the Department of Public Utilities, now the Department of Telecommunications and Energy ("Department") approved a settlement in which Nantucket Electric Company ("Nantucket Electric" or "Company") was acquired by New England Electric System ("Merger Agreement"). Nantucket Electric Company, D.P.U. 95-67 (1995). Pursuant to the Merger Agreement, Nantucket's customers will pay Massachusetts Electric Company's rates plus a cable facilities surcharge ("CFS") calculated annually to cover the cost of underwater cable facilities to serve Nantucket. Id. at 2-3. The Department approved the 2000 CFS on December 30, 1999, the 1999 CFS on January 8, 1999, and the 1998 CFS on December 31, 1997.

On November 30, 2000, Nantucket filed with the Department its proposed 2001 CFS to become effective January 1, 2001. Pursuant to notice duly issued, on December 28, 2000, the Department conducted a public hearing and evidentiary hearing on this matter. The evidentiary record consists of three Company exhibits. The Company sponsored the testimony of Michael D. Laflamme, the Manager of Distribution Financial Analysis for National Grid USA, and Theresa Burns, the Manager of Distribution Rates for National Grid Service Company. There were no petitions for leave to intervene filed.

II. THE CFS

- Description

The Company calculates its CFS annually based on projected costs and projected kilowatt-hour ("KWH") sales that are reconciled to actual figures in the next annual CFS filing (Exh. NE-1, at 5-6). The Company states that its 2001 revenue requirement for its cable facilities is composed of: (1) its projected cost of service for 2001; (2) the preliminary reconciliation of the revenue collected under the 2000 CFS;⁽¹⁾ and (3) the final reconciliation of the actual revenue collected under the 1999 CFS (id. at 5-6).

The Company projects its 2001 cable facilities cost of service to be \$2,833,533 (Exh. NE-1, at 14).⁽²⁾ This amount is offset by a preliminary overcollection for 2000 of \$239,092 and a final overcollection of \$14,155 for 1999, producing a net revenue requirement of \$2,580,286 (id. at 9, 12). Nantucket calculated the preliminary overcollection for 2000 by subtracting the 2000 cable surcharge revenue requirement of \$2,604,815 from the estimated revenues collected in 2000 of \$2,843,907 (Exh. NE-2, at 4). The 2000 cable surcharge revenue requirement consists of the 2000 projected cable facilities cost of service of \$2,944,915, the estimated overcollection for 1999 of \$272,996, and the final

1998 overcollection of \$66,604 (Exh. NE-1, at 12, 18). With respect to the 1999 final reconciliation, Nantucket calculated this by subtracting the sum of the actual 1999 cable cost of service of \$3,083,640 and the 1999 estimated overcollection of \$167,738 which had been included in the 2000 CFS, totalling \$3,251,378, from the actual 1999 cable surcharge revenues of \$3,265,533 (Exh. NE-2, at 40).

The Company proposed to allocate the 2001 revenue requirement to each of the Company's rate classes based on the amount of revenue each rate class has contributed during 2000 (Exh. NE-2, at 6).⁽³⁾ The Company asserts that allocating the cable facilities' costs this way ensures equity among rate classes and avoids the rate shock that would result from an alternative allocation (*id.*). The Company also proposes to continue the seasonal (summer/winter) CFS rates to maintain consistency with the Company's historic rate structure and insulate customers from significant swings in average rates (*id.* at 7). Nantucket presented evidence that its proposed CFS decrease does not impede the Company's overall fifteen percent consumer rate reduction that is required by G.L. c. 164, § 1B(b).

B. Analysis and Findings

In our review of the CFS, the Department assessed whether the CFS comports with the Department's rate design requirements. Nantucket Electric Company, D.P.U. 95-67, at 20 (1995). The Department reviewed the components of the Company's CFS revenue requirement. The Department finds that the Company's method of calculating and allocating Nantucket's 2001 CFS are consistent with D.P.U. 95-67 and with the Department's rate design requirements. The Department also finds that the Company's CFS decrease complies with the Company's required fifteen percent customer rate reduction as required by G.L. c. 164, § 1B(b). Accordingly, the Department hereby approves the 2001 CFS proposed by Nantucket as indicated by Table 1, attached to this Order.

III. ORDER

Accordingly, after due notice, hearing and consideration, it is

ORDERED: That Nantucket Electric Company shall implement the twelve-month

2001 cable facilities surcharge rates as indicated in Table 1, attached to this Order. These cable facilities surcharge rates shall go into effect January 1, 2001.

By Order of the Department,

James Connelly, Chairman

W. Robert Keating, Commissioner

Paul B. Vasington, Commissioner

Eugene J. Sullivan Jr., Commissioner

Deirdre K. Manning, Commissioner

Appeals as to matter of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part.

Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. (Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971).

1. In this filing, the Company forecasted revenue for two months (November and December) of 2000 and forecasts cost of service for three months (October, November, and December (Exh. NE-1, at 5-6).

2. The Company's cost of service includes: (1) return and taxes on rate base;

(2) depreciation expense; (3) amortization of financing costs; and (4) a credit for fiber optic rental revenues (Exh. NE-1, at 6-7).

3. The Department notes that the Company's method for allocating its 2001 revenue requirement will result in a varying CFS charge for each rate class. Each CFS is noted on Table 1, attached to this Order.